San Luis Obispo County Treasury Investment Pool

Full Rating Report

Ratings

Security Class	Current Ratings
San Luis Obispo County Investment Pool	AAA/V1

Related Research

San Luis Obispo County Treasury Investment Pool, Oct. 6, 2010

Fitch: Local Gov't Investment Pool Ratings Not Affected by U.S. Negative Outlook, Dec. 13, 2011

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Key Rating Drivers

High-Quality Credit Portfolio: The San Luis Obispo County Treasury Investment Pool invests primarily in U.S. government and agency securities, repurchase agreements backed by such securities, high-quality securities rated at least 'A/F1', and the Local Agency Investment Fund (LAIF), a local government investment pool managed by California's Pooled Money Investment Board.

Low Sensitivity to Market Risk: The maturity profile of the portfolio is intended to largely match the participants' anticipated operating expenses. Market risk is mitigated by the duration of the pool, which typically is two years or less, as well as the predictable nature of the cash outflows of the passive participant base.

Stable Depositor Base: The stability of cash flow projections is supported by the pool's stable depositor base, since all pool participants are required to maintain funds in the county pool. Requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs are subject to the consent of the county treasurer in accordance with California government code.

Appropriate Management and Oversight: The pool's oversight and operational controls are consistent with the assigned ratings. Per California government code, a treasury oversight committee composed of representatives of pool participants and the public reviews the pool on a regular basis. The pool's assets are segregated from other county assets and safekept by the Bank of New York Mellon, the pool's custodian. Additionally, the pool is subject to quarterly internal audits from the county auditor's office and an annual external audit.

What Could Trigger a Rating Action

Changes in the Portfolio: The pool's credit and volatility ratings may be sensitive to material changes in the composition, credit quality, and liquidity profile of its portfolio or an increase in unanticipated cash outflows. A materially adverse deviation from Fitch Ratings' guidelines for any key rating driver could cause ratings to be lowered by Fitch.

Changes in U.S. Financial Condition: Given that the portfolio consists largely of U.S. Treasury and government agency securities, the ratings may also be sensitive to materially adverse changes in the U.S. government's financial condition and that of the broader U.S. economy. On Nov. 28, 2011, Fitch revised the Rating Outlook on the long-term rating of the U.S. to Negative from Stable, although this had an immaterial impact on the pool's weighted average rating factor (WARF).

Rating Rationale

The San Luis Obispo County Treasury Investment Pool is rated 'AAA/V1' by Fitch. The 'AAA' fund credit rating reflects the investment portfolio's vulnerability to losses as a result of defaults in its bond holdings and is based on the actual and prospective average credit quality of the portfolio's investments. The 'V1' fund volatility rating reflects the relative sensitivity of the investment portfolio's net asset value to assumed changes in credit spreads and interest rates, as well as certain other market risk parameters.

Fitch's evaluation of the pool also reflects the management and operational capabilities of the San Luis Obispo County treasurer–tax collector's office and the legal and regulatory framework under which the investment portfolio operates. Pool valuation reports are submitted to Fitch on a monthly basis. As of Sept. 30, 2011, the pool had approximately $522 million in assets.

Organizational Overview

San Luis Obispo County is located in Southern California. The San Luis Obispo County Treasury Investment Pool is managed by the San Luis Obispo County treasurer–tax collector, Frank L. Freitas, on behalf of pool participants, which include the county, school districts, and special districts.

Mr. Freitas is a certified public accountant and was first elected to public office in 1978. In addition to managing the pool, Mr. Freitas is also a member of the San Luis Obispo County Board of Pension Trustees. He served as executive secretary for the board from 1984–1990. He has served as chairperson of the Pension Trust Real Estate Investment Committee.

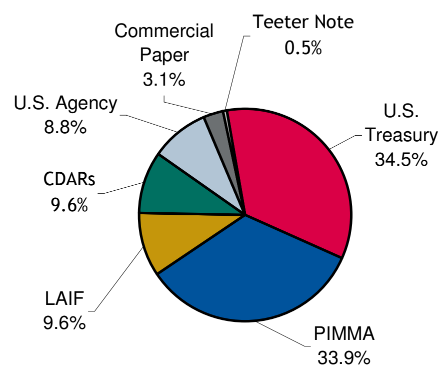
Other key members of the investment team include the assistant treasurer/tax collector, the treasury investment manager, and two financial analysts. These members all have the authority to give written and oral instructions to purchase and sell authorized investments on behalf of San Luis Obispo County. Members of the investment team report to Mr. Freitas.

Pool's Objective and Investment Practices

The pool's investment objectives are: safety and preservation of capital; liquidity sufficient to meet all operating requirements; yield subject to safety, liquidity, and competitive pricing requirements; and compliance with California and federal law. The pool pursues its investment objectives by investing in a diverse portfolio of high-quality securities.

Permitted investments include U.S. Treasury notes and bills, U.S. agency securities, commercial paper, bankers' acceptances, repurchase agreements, and LAIF. LAIF is a high-quality, diversified investment pool with an average maturity of less than one year, offering participants daily liquidity.

Portfolio Composition
(As of Sept. 30, 2011)



Source: San Luis Obispo County treasurer. Note: Numbers may not add to 100% due to rounding.

Related Criteria

Global Bond Fund Rating Criteria, Aug. 16, 2011

The pool may invest in the county's Teeter Plan note program, which allows the county to receive advanced funding against delinquent property tax receipts. As of Sept. 30, 2011, the portfolio held 0.5 % in a Teeter Plan note that matures on June 22, 2012.

The pool currently keeps a majority of its overnight funds in the Public Investment Money Market Account (PIMMA) which consists of interest-bearing bank deposits 110% over-collateralized by U.S. Treasury and government agency securities. The deposits are held by various banks, while all collateral securities pledged to a pool are segregated and safekept by The Bank of New York Mellon (rated 'AA-/F1+' by Fitch with a Stable Rating Outlook) and Union Bank, N.A. (rated 'A/F1' by Fitch with a Stable Rating Outlook), in line with the requirements of California state law for all public funds deposits.

PIMMA accounts are considered depository accounts and not investments per California government code section 53631. As of Sept. 30, 2011, the pool held 33.9% of assets in PIMMA accounts. From an asset quality and liquidity perspective, Fitch views these assets as similar in nature to stand-alone collateralized bank deposits, in which the high quality of the pledged asset type and ratings of the custodial banks are taken into consideration.

The pool's investments in the CD Account Registry Service (CDARS) program, authorized by California GC section 53635.8, are groups of individual certificates of deposit (CD) of less than $250,000 each that are fully FDIC insured and placed through a network participating bank. CDARS operates as a private entity that assists in the placement of CDs.

By its investment policy, the pool may invest in repurchase agreements with counterparties rated at least 'A+/F1' by Fitch or equivalent and overcollateralized by at least 102%. Repurchase agreement collateral is restricted to U.S. Treasury and government agency securities. As of Sept. 30, 2011, the fund did not have any investments in repurchase agreements.

The pool does not purchase any floating-rate notes, other structured notes, or derivatives that may create inappropriate market risk exposure. The pool takes a conservative view of leverage, as the use of reverse repurchase agreements in any form is specifically prohibited by the county treasurer. All securities bought by the pool are either discount notes or fixed-coupon notes, except for an investment in a Teeter Plan note.

Asset Credit Quality

As of Sept. 30, 2011, the pool invested approximately 34.5% of its total assets in U.S. Treasury securities, 33.9% in PIMMA, 9.6% in LAIF, 9.6% in bank certificates of deposit, 8.8% in U.S. government agency securities, 3.1% in commercial paper, and 0.5% in the Teeter Plan note program.

As of Sept. 30, 2011, LAIF had $22 billion in assets under management, according to its public disclosure. LAIF funds are not co-mingled with the state's cash or in any way available for state use. Fitch does not rate LAIF; however, Fitch views it as being managed in a manner generally consistent with other Fitch-rated local government investment pools operating in the state of California in terms of asset credit quality, issuer diversification, investor diversification, and liquidity management.

To maintain investor diversification, LAIF limits the maximum size of a single depositor's account to $50 million, which equates to approximately 10% based on the San Luis Obispo County Treasury Investment Pool's Sept. 30, 2011 assets under management. Aside from this limit, any amount of eligible bond proceeds could be invested in LAIF. As of Sept. 30, 2011, the San Luis Obispo County Treasury Investment Pool had a total of $50 million in LAIF.

Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with 'AAA/V1' ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as consistent with 'AAA/V1' ratings, provided that such additional investment does not serve as the sole or primary source of the portfolio's overnight liquidity.

Weighted Average Rating Factor

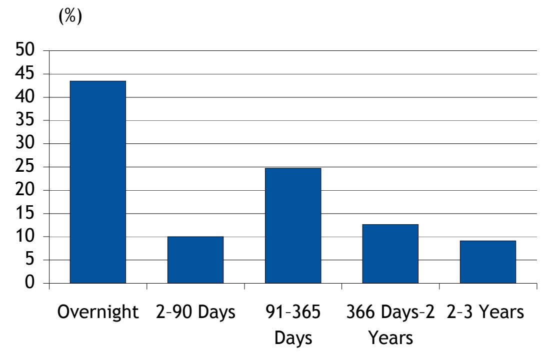
Based on the portfolio credit quality and maturity profile as of Sept. 30, 2011, Fitch calculated the weighted average rating factor to be consistent with an 'AAA' fund credit rating. This analysis includes a reduction of the credit factors for securities maturing within 13 months, in recognition of the lower default probability of such securities relative to longer-dated securities.

In calculating a fund's weighted average rating factor (WARF), Fitch applies higher credit rating factors for 'AAA' securities with Negative Rating Outlooks versus 'AAA' securities with Stable Rating Outlooks. While the effect of Fitch's placement of the U.S. long-term Rating Outlook on Negative on Nov. 28, 2011 marginally increased the WARF for the pool, the WARF remains consistent with a 'AAA' fund credit rating.

Rating Distribution and Minimum Ratings

In evaluating the investment portfolio, Fitch also considered its minimum asset ratings as well as the extent to which it may undertake a barbelled investment strategy. The investment portfolio consisted largely of long-term assets rated 'AAA' and short-term assets rated 'F1' (or equivalent) or higher. The minimum ratings and absence of a barbelled investment strategy are viewed as consistent with the 'AAA' credit rating assigned to the fund.

Portfolio Maturity Profile
(As of Sept. 30, 2011)

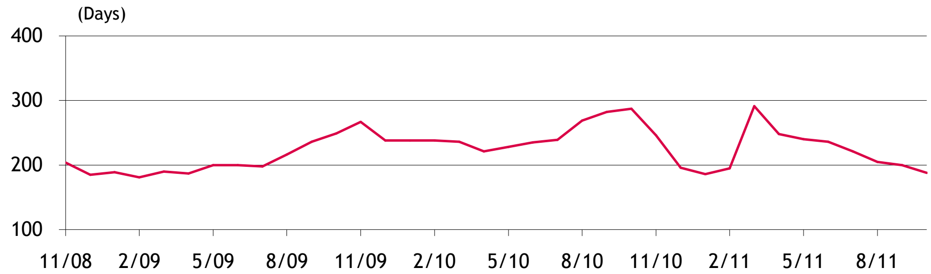


Source: San Luis Obispo County treasurer.

Diversification

The investment portfolio is primarily composed of U.S. Treasury and government agency securities, which are not viewed as posing concentration risk, given the high credit quality and historically liquid nature of such investments. However, the rating on the pool may be sensitive to any negative rating actions with respect to the U.S. government. While the pool also maintains material exposure to LAIF and its PIMMA depository account, Fitch acknowledges that these investments are both composed of many different underlying obligors, thereby mitigating concentration risk.

Portfolio Weighted Average Maturity



Source: San Luis Obispo County treasurer.

Liquidity Management

The pool's liquidity profile is based on the composition of its participants and their scheduled liquidity needs. Each month, pool cash flows are forecast for the ensuing 12 months on the basis of the prior year's cash flows, which are then updated to include any identifiable changes in the forecast period. The stability of cash flow projections stems from the captive nature of the participant base, since all pool participants are required to maintain funds in the county pool.

Further mitigating liquidity risk to the pool, requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs are subject to an advance notice and consent of the county treasurer, in accordance with California government code. An advance notice must be submitted to the treasurer at least 20 calendar days prior to the withdrawal date for an amount of $5 million or higher and at least 10 calendar days prior to the withdrawal date for amounts under $5 million.

The pool seeks to manage its maturity profile through its cash flow matching and short-maturity investment strategies to ensure sufficient liquidity to meet anticipated cash outflows. Investments in PIMMA and LAIF provide additional sources of liquidity to meet cash needs.

As of Sept. 30, 2011, approximately 43.5% of the portfolio was held in securities maturing overnight, and an additional 8% of the portfolio was held in investments with maturities of 30 days or less. Furthermore, as of the same date, the pool held 34.5% of total assets in U.S. Treasury securities that are expected to demonstrate secondary market liquidity even during periods of market stress.

As of Sept. 30, 2011, the weighted average final maturity (WAMf) of securities held in the fund was approximately 204 days, and the effective duration was 0.6 years, according to Fitch's calculations and based on information provided to Fitch by the county of San Luis Obispo. WAMf is the asset-weighted average number of days to the final maturity of all portfolio assets and measures sensitivity to changing credit spreads.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.